



U. S. Department of Housing and Urban Development

New York/New Jersey Office
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**Office of Inspector General
Office of Audit**

August 16, 1996

Audit Related Memorandum No. 96-NY-202-1801

MEMORANDUM FOR: Harry A. Reese, Director of Public Housing
Buffalo Area Office

FROM: A. Paul Kane, District Inspector General for Audit,
New York/New Jersey

SUBJECT: City of Lockport Housing Authority
Low-Rent Housing Programs
Lockport, New York

We have completed a review of the City of Lockport Housing Authority (CLHA), Lockport, New York, under our Operation Safe Home Initiative. The primary purpose of the review was to assess the condition of CLHA's housing stock and to determine whether the CLHA is complying with applicable requirements, laws, and regulations governing the administration of its operations. During our review, we conducted interviews, examined records, and performed site inspections.

Overall, we found that the housing stock of the CLHA is being well maintained and that tenants are being provided decent, safe, and sanitary units. We also found that the CLHA is generally complying with applicable requirements, laws, and regulations governing the administration of its operations.

However, we noted six weaknesses in the CLHA's operations that we are bringing to your attention for required corrective action. A discussion on weaknesses found, summaries of the auditee's comments, appropriate evaluations of the auditee's comments, and our recommendations are provided in the following subsections:

1. Procurement Procedures Were Not Followed

Our review disclosed that the CLHA did not comply with portions of procurement regulations, 24 CFR Part 85.36, that pertain to cost reasonableness and open competition when contracts were awarded to the Physical Plant/Modernization Manager during 1992 and 1996. Specifically, our review of the CLHA's procurement files revealed that: (1) for the 1992 contract the CLHA neither evaluated the contract price for cost reasonableness nor fully documented the selection process; and (2) for the 1996 contract the CLHA did not solicit nor

negotiate the contract. As a result, the CLHA may have procured services at a substantially higher than the average cost because cost reasonableness and free and open competition were restricted.

Auditee Comments

The CLHA responded that the 1996 contract was not a new contract, but was an amended version of the original 1992 contract. It was amended to take into consideration the expansion of supervisory maintenance duties and the winding down of the day to day tasks of the CIAP program, which necessitated the original contract. The CLHA also contends that the selectee was able to justify the fee requested for the 1992 contract by taking factors into consideration such as taxes and benefits.

OIG Evaluation of Auditee Comments

We view the 1996 agreement as a new contract rather than an amendment. Whether considered a contract or an amendment, we believe that the extent of changes made to the original contract should have required additional procurement procedures. Also, the CLHA did not provide adequate documentation showing that it adhered to the procurement regulations pertaining to costs reasonableness.

RECOMMENDATIONS

We recommend that you require the CLHA to:

- 1A. Terminate the 1996 contract with the Physical Plant/Modernization Manager.
 - 1B. Ensure that all subsequent contracts comply with 24 CFR Part 85.36, which provides for open competition and cost reasonableness.
2. Leave Records Are Not Maintained Properly

Our review disclosed that payroll records of the CLHA did not contain sufficient information on vacation and sick time used by employees. We found that the current payroll system only provides for regular pay and overtime. We noted that the Finance Officer determines regular pay based on an assumption that each employee has worked 80 hours during the pay period. Overtime is based on actual overtime hours worked by an employee. However, vacation and sick time used is not put into the system, which results in leave taken being recorded in the regular pay category. Furthermore, the records containing the vacation and sick time information are maintained exclusively by the Executive Director. Those records do not contain adequate supporting documentation, i.e. sick and vacation requests, doctor slips, etc; and can not be reconciled with payroll since there is no distinction between regular hours worked and vacation and sick time taken. Additionally, the review disclosed that the current

system does not require employees to certify to the amount of time worked. The only time an employee and the Executive Director certify the amount of time worked is when an employee claims overtime. As a result, we were unable to verify whether the information contained in the payroll and leave records are accurate.

Auditee Comments

The CLHA will attempt to separate time recorded as regular, overtime, and leave used in the current payroll system. Also, leave taken will be recorded on a leave request form and verified by the employee's signature before given to the Director for authorization. Additionally, the CLHA will utilize more individuals to keep, record, and authorize time worked and leave taken.

RECOMMENDATIONS

We recommend that you require the CLHA to:

- 2A. Revise the payroll system to provide for the separation of vacation and sick time from regular hours worked.
- 2B. Develop and implement procedures that require employees to certify time worked and leave taken.
- 2C. Ensure that the functions of timekeeping, recording, and authorization are adequately segregated within the payroll system.

3. Equipment Inventory Controls are Inadequate

Our review disclosed that the CLHA does not have sufficient inventory controls to properly safeguard its equipment inventories. Specifically, our review disclosed that: (a) inventory records are not maintained properly; (b) annual physical inventory was not taken; and (c) reconciliation between the physical inventory and accounting records was not performed. As a result of these deficiencies, the CLHA can not be assured that: (1) inventories on-hand are safeguarded; (2) inventory records are accurate; and (3) internal controls are adequate to prevent theft and misuse.

HUD Handbook 7510.1, Chapter 7 provides that PHAs shall establish and maintain complete and accurate records of all real and personal property. Furthermore, Paragraph 5 requires the PHA to take a physical inventory of all items of nonexpendable equipment annually.

Our review disclosed that the CLHA is not adequately tracking appliances that are in storage. More specifically, the CLHA's policy is that: (1) when a shipment of new appliances is received, the appliances are counted and verified to the shipping documents and; (2) when the

appliance is placed into service, the asset identification number is placed on the equipment, the serial number is recorded, and the equipment is recorded in the inventory records and the general ledger. The current policy does not account for appliances in storage. As a result, appliances are not properly safeguarded while in storage.

In addition, the CLHA did not perform an annual physical inventory of its nonexpendable equipment. As a result, the inventory accounting records were not reconciled with a physical inventory. Without a reconciliation, accounting errors or equipment losses can not be accurately identified.

Auditee Comments

The manual system has been updated and awaiting a new computer system, which will provide for a good inventory control system with counter checks. Also, the physical inventory has been completed and the records are in the process of being updated.

RECOMMENDATIONS

We recommend that you require the CLHA to:

- 3A. Develop and implement an inventory control system, so that inventory is properly accounted for and safeguarded.
- 3B. Perform a physical inventory of all equipment and reconcile it with appropriate accounting records.

4. **Employee Received Compensation for Vacation Time Not Taken**

The results of our review disclosed that an employee was paid for 24 hours of vacation time that was unused during 1995. According to the CLHA's Personnel Policy, annual vacation leave will not be accumulative outside of the year in which it is granted. The Executive Director stated that the person had earned the vacation time but was unable to use it because he was on workmen's compensation for most of the year. The Executive Director felt that having the person on duty instead of using the leave was the best way to handle the work load. Also, the Executive Director told us that the situation was presented to the Board, but did not result in the issuance of a Resolution. However, when we spoke to the Board Chairperson and another member, they did not recall any employee receiving 24 hours of vacation pay because it was not taken. Also, we could not locate a Resolution in the minutes of the Board pertaining to this situation. In this regard, we believe that the employee should not have been paid for the 24 hours of unused leave without specific Board approval.

Auditee Comments

The CLHA responded that the authority has the right to schedule leave time so as not to interfere with the work of the Authority. It was the Executive Director's decision, after running it by the Board at a meeting, to pay the individual three days vacation time for the days since there was neither time for the days to be taken, nor a way to hold them over until next year. Also, officials of the Authority did not feel it was an exception to the policy since the particular situation is not addressed either way in the Personnel Policy.

OIG Evaluation of Auditee Comments

We agree that the Executive Director should be able to make decisions based on the situation at hand. However, we also believe that situations not addressed in the Personnel Policy, such as paying employees for accumulated vacation leave, should be, approved by the Board. Thus, the Executive Director's decision to pay the employee's accumulated leave should have been approved by the Board and placed in the minutes.

RECOMMENDATIONS

We recommend that you have the CLHA to:

- 4A. Establish and implement procedures that are to be followed when situations arise that are not addressed in the Personnel Policy.

5. Personnel Policy Does Not Reflect the Current Practices at the Authority

During our review we noted discrepancies between requirements of the Personnel Policy and actual practices at the CLHA. According to the personnel policy, an employee is entitled to a paid vacation for two weeks after completing one year of employment, three weeks after five years, four weeks after fifteen years, and five weeks after 20 years. However, we found that employees are receiving 17 vacation days between 10 and 15 years of service. Furthermore, the policy provides that regular employees will be entitled to two personal leave days per year, regardless of seniority. However, employees are receiving between two and five personal leave days depending upon their seniority. We were told that the Personnel Policy is outdated and does not include all the current practices. We were also told that the CLHA is in the process of updating all aspects of the policy based upon recommendations from a consulting firm. However, that process was put on hold when the employees joined the union. According to the Executive Director, policy changes should not be made until negotiations with the union commence.

Auditee Comments

The Personnel Policy does reflect current practices and will be further updated and changed

after negotiations with the union. However, the Inspector General (IG) team was given an old policy that had not been updated. The old policy has been corrected and forwarded to the IG office, which reflects the vacation changes made during recent years.

OIG Evaluation of Auditee Comments

We were given an updated Personnel Policy subsequent to our on-site review. However, that policy was not updated with all current practices pertaining to vacation leave and personal days.

RECOMMENDATION

We recommend that you require the CLHA to:

5A. Review and update the Personnel Policy to ensure that it accurately reflects current practice.

6. Administrative Actions Needed to Improve the Morale Within the Authority

We were presented with numerous concerns pertaining to personnel matters during our review. Some of the information was obtained from interviews with each employee, Board Members, the Executive Director, and a contractor at the CLHA to obtain views on how personnel matters are handled at the CLHA. Also, we provided the staff a questionnaire in order to give each employee an opportunity to respond to personnel issues brought to our attention. Finally, we compiled the information and summarized the results.

The results disclosed 12 personnel issues in which over half of the employees had negative responses. Moreover, 6 of the 12 issues dealt with the belief that the employees did not receive adequate information. For example, 10 of 14 employees responded that they were not given notification of job openings within the CLHA. Also, 9 of 14 employees responded that they are not made aware of changes in their benefits package. Further, 8 of 14 employees responded that they are not always notified of changes in personnel policies. We believe that these issues can be resolved through improved lines of communication at all levels.

Additionally, we were presented with other concerns such as favoritism, repercussions for voicing complaints, and doubts about CLHA officials addressing employees complaints. These issues were concerns perceived by over half of the CLHA's employees. Again, we believe measures can be taken to bring about positive changes to these beliefs through better communications.

Auditee Comments

The recommendations will be addressed in upcoming negotiations with the selected union representation. Also, it is highly apparent that an organized, scheduled, and documented method of disseminating information is highly needed. Plans will be made to initiate a monthly planning meeting with all employees.

RECOMMENDATIONS

We recommend that you require the CLHA to:

- 6A. Post CLHA job announcements in highly visible places.
- 6B. Discuss with the staff any proposed changes in the benefits package prior to Resolution.
- 6C. Discuss with the staff any proposed changes to the Personnel Policy prior to Resolution. Clearly post and make the changes available to all employees.
- 6D. Conduct staff meetings regularly to inform the staff of current CLHA issues as well as to enable the staff to freely voice concerns.

Regarding the above issues, we believe that your staff should monitor the CLHA's implementation of corrective actions to ensure that needed improvements are completed.

Please contact us if you or your staff have any questions, or require copies of pertinent working papers. Also, please furnish us with copies of any correspondence issued related to this review.

Distribution

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